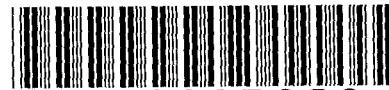


ORIGINAL



0000023952

RECEIVED

30

MEMORANDUM

2005 AUG 11 A 10: 25

AZ CORP COMMISSION  
DOCUMENT CONTROL

TO: Docket Control

FROM: Ernest G. Johnson  
*EGJ* Director  
Utilities Division

DATE: June 10, 2005

RE: STAFF REPORT FOR ENTRADA DEL ORO SEWER COMPANY  
APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND  
NECESSITY FOR SEWER SERVICES DOCKET NO. SW-04316A-05-0371

Attached is the Staff Report for the above referenced application. Staff recommends approval of the application subject to several conditions.

EGJ:LAJ:red

Originator: Linda Jaress

Attachment: Original and Thirteen Copies

Service List for: Entrada Del Oro Sewer Company  
Docket No. SW-04316A-05-0371

Mr. Michael W. Patten  
Roshka Heyman & Dewulf  
One Arizona Center  
400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004

Mr. Christopher C. Kempley  
Chief, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

ENTRADA DEL ORO SEWER COMPANY

DOCKET NO. SW-04316A-05-0371


APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND  
NECESSITY TO PROVIDE  
SEWER SERVICE IN MARICOPA COUNTY, ARIZONA

August 11, 2005

## STAFF ACKNOWLEDGEMENT

The Staff Report for Entrada Del Oro Sewer Company (Docket No. SW-04316A-05-0371) was prepared by the Staff members listed below. Linda Jaress prepared the Staff Report, Dorothy Hains prepared the Engineering Report and Jamie Moe prepared the Financial and Regulatory Analysis Report.

Contributing Staff:



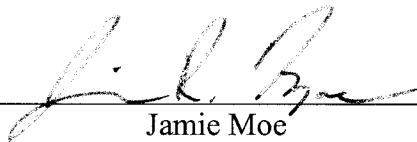
---

Linda A. Jaress  
Executive Consultant II



---

Dorothy Hains  
Utilities Engineer



---

Jamie Moe  
Public Utilities Analyst IV

**EXECUTIVE SUMMARY**  
**ENTRADA DEL ORO SEWER COMPANY**  
**DOCKET NO. SW-04316A-05-0371**

On May 24, 2005, Entrada Del Oro Sewer Company ("Entrada" or "Company"), filed an application for approval of a Certificate of Convenience and Necessity ("CC&N") to provide utility wastewater service in an area within Pinal County, Arizona located approximately 4 miles east of Gold Canyon. The area covers 452.7 acres and will include approximately 1,132 residential units and one elementary school site. The development will be built in three phases.

The Company proposes to install a 0.3 million gallons per day wastewater treatment plant. The treated effluent will be disposed in a dry wash for which the Company has a United States Environmental Protection Agency National Pollutant Discharge Elimination System permit. Staff concludes that the Company will have adequate treatment capacity to service expected growth in the requested area.

Staff concludes that under certain conditions the requested CC&N of Entrada is in the public interest and should be approved. Staff recommends approval under the following conditions:

1. The Company must use the depreciation rates delineated in Table 1 of Staff's Engineering Report attached.
2. The Company must file documentation with Docket Control by December 31, 2007, which demonstrates that the system is in service.
3. The Company must charge Staff's recommended rates and charges as shown in Schedule JRM-4.
4. The Commission should find that the projected fair value rate base will be \$3,343,970 in the fifth year.
5. The Company must file a permanent rate application in its sixth year of operations, using the fifth year as the test year.

Staff further recommends that the Commission's Decision granting this CC&N to Entrada be considered null and void without further order from the Commission should Entrada fail to meet condition 2 within the time specified.

## TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| <b>Introduction</b> .....  | 1           |
| <b>Background</b> .....  | 1           |
| <b>Finance of Facilities</b> .....   | 1           |
| <b>Nearby Facilities</b> .....   | 1           |
| <b>The Proposed Facilities</b> .....   | 1           |
| <b>Arizona Department of Environmental Quality (“ADEQ”) Compliance</b> ..... | 2           |
| <b>Proposed Rates</b> .....  | 2           |
| <b>County Franchise</b> .....  | 2           |
| <b>Conclusions and Recommendations</b> .....                                 | 2           |

## ATTACHMENT(S)

|  |   |
|--|---|
| ENGINEERING MAP .....                          | 1 |
| ENGINEERS REPORT .....                         | 2 |
| FINANCIAL AND REGULATORY ANALYSIS REPORT ..... | 3 |

## **Introduction**

On May 24, 2005, Entrada Del Oro Sewer Company ("Entrada" or "Company"), filed an application for approval of a Certificate of Convenience and Necessity ("CC&N") to provide utility wastewater service in an area within Pinal County, Arizona located approximately 4 miles east of Gold Canyon. The area covers 452.7 acres and will include approximately 1,132 residential units and one elementary school site. The development will be built in three phases. The legal area requested by the Company for its CC&N is reflected on Exhibit I, attached.

## **Background**

Entrada will provide wastewater service to a new development named Entrada Del Oro. The owners of the property within the development have requested that Entrada provide wastewater utility service. Arizona Water Company holds a CC&N to provide water service to the same development. According to the final plat for Entrada Del Oro Unit 1, Salt River Project Agricultural Improvement District will provide electric service and Qwest will provide telephone service.

## **Finance of Facilities**

Entrada will be financed by \$4.4 million of paid-in capital and \$1.9 million from Engle Homes in the form of a contribution. The on-site collection system in Phase 1 of the development is being installed and contributed by Engle Homes, the Phase 1 homebuilder. It is anticipated that collection systems in future phases of the development will be installed and contributed by homebuilders. The treatment facility, building, walls, landscaping, force main and other improvements are being funded by cash resources of Entrada Del Oro Sewer Company.

## **Nearby Facilities**

The Company contacted Queen Valley Sanitary District, a local RV Park and Gold Canyon Ranch about providing wastewater service to the Entrada Del Oro development and the companies did not indicate any interest in serving the project.

## **The Proposed Facilities**

The Company proposes to install a 0.3 million gallons per day wastewater treatment plant. The treated effluent will be disposed in a dry wash for which the Company has a United States Environmental Protection Agency National Pollutant Discharge Elimination System permit. Staff concludes that the Company will have adequate treatment capacity to service expected growth in the requested area. Staff's Engineering Report, attached as Exhibit 2, contains a more comprehensive description of the proposed wastewater system and its cost.

Staff recommends that the Company file documentation with Docket Control by December 31, 2007 which demonstrates that the system is in service.

### **Arizona Department of Environmental Quality ("ADEQ") Compliance**

ADEQ has approved the proposed on-site wastewater treatment and disposal system by issuing an Aquifer Protection Permit on May 20, 2005. On February 27, 2001, ADEQ certified that the Entrada Del Oro Water Management System Plan Amendment is consistent with both the State of Arizona and the Central Arizona Association of Governments Water Quality Management Plans.

### **Proposed Rates**

Attached as Exhibit 3 is the Report of the Financial and Regulatory Analysis Section. Included in the Report, as Schedule JRM-4, is a complete list of Staff's recommended rates and charges. Briefly, Staff recommends the monthly rate for residential service be \$70. Staff reduced the Company's proposed rate for the school from \$7.00 per student per month to \$5.60 per student per month to reflect what Staff believes is a more reasonable estimate of students' water use at school.

Staff also found that the projected fair value rate base in year five is \$3,343,970.

### **County Franchise**

Entrada Del Oro received its Pinal County franchise on July 8, 2005.

### **Conclusions and Recommendations**

Staff concludes that under certain conditions the requested CC&N of Entrada Del Oro is in the public interest and should be approved. Staff recommends approval under the following conditions:

1. The Company must use the depreciation rates delineated in Table 1 of Staff's Engineering Report attached.
2. The Company must file documentation with Docket Control by December 31, 2007, which demonstrates that the system is in service.
3. The Company must charge Staff's recommended rates and charges as shown in Schedule JRM-4.
4. The Commission should find that the projected fair value rate base will be \$3,343,970 in the fifth year.

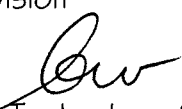


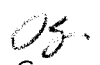
5. The Company must file a permanent rate application in its sixth year of operations, using the fifth year as the test year.

Staff further recommends that the Commission's Decision granting this CC&N to Entrada be considered null and void without further order from the Commission should Entrada fail to meet condition 2 within the time specified.

## MEMORANDUM

TO: Linda Jaress  
Executive Consultant III  
Utilities Division

FROM: Barb Wells   
Information Technology Specialist  
Utilities Division

THRU: Del Smith   
Engineering Supervisor  
Utilities Division

DATE: June 29, 2005

RE: **ENTRADA DEL ORO SEWER COMPANY (DOCKET NO. SW-04316A-05-0371)**

The area requested by Entrada for a CC#N for sewer service has been plotted with no complications using the legal description provided with the application (a copy of which is attached).

Also attached is a copy of the map for your files.

:bsw

### Attachments

cc: Docket Control  
Mr. Michael Patten  
Ms. Deb Person (Hand Carried)  
File

A 36x36 grid with a red border and a yellow grid. The top-left 10x10 area is divided into a blue cross shape and a white cross shape, both with black diagonal hatching. Red numbers 1-36 are placed in the center of each grid cell.

# TOWNSHIP 1 South



1000

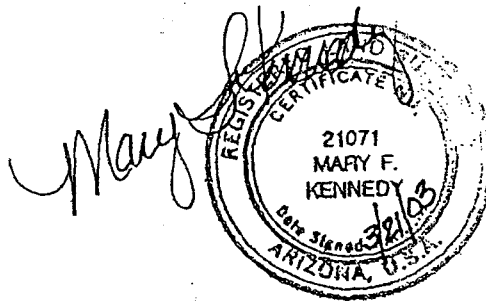
**Entrada Del Oro Sewer Company  
Docket No. SW-04316A-05-0371  
Application for CC&N**

**LEGAL DESCRIPTION  
ENTRADA DEL ORO  
PINAL COUNTY, ARIZONA**

Government Lots 1, 2, and 3, the Southeast quarter of the Southwest quarter, the Southeast quarter of the Northwest quarter, the Northeast quarter of the Southwest quarter, the South half of the Northeast quarter, the Northeast quarter of the Northwest quarter, and the North half of the Northeast quarter of Section 30, Township 1 South, Range 10 East, of the Gila and Salt River Base and Meridian, Pinal County, Arizona, described as follows:

Commencing at the Southwest corner of Section 30, said point being a found G.L.O. brass cap, thence North 0 degrees 52 minutes 48 seconds East, 1319.82 feet along the west line of Section 30 to the Southwest corner of GLO Lot 3, said point being the POINT OF BEGINNING; thence North 0 degrees 52 minutes 48 seconds East, 1319.82 feet to the West quarter corner of Section 30, said point being a found G.L.O. brass cap; thence North 0 degrees 51 minutes 03 seconds East, 2641.20 feet to the Northwest corner of Section 30; thence South 89 degrees 03 minutes 34 seconds East, 2788.95 feet to the North quarter corner of Section 30; thence South 89 degrees 03 minutes 34 seconds East, 2637.30 feet to the Northeast corner of Section 30; thence South 1 degrees 01 minutes 42 seconds West, 2634.15 feet to the East quarter corner of Section 30; thence North 89 degrees 08 minutes 02 seconds West, 2633.33 feet to the Center of Section 30; thence South 0 degrees 56 minutes 31 seconds West, 2640.91 feet to the South quarter corner of Section 30; thence North 89 degrees 06 minutes 28 seconds West, 1318.75 feet to the Southwest corner of the Southeast quarter of the Southwest quarter of Section 30; thence North 0 degrees 56 minutes 35 seconds East, 1320.15 feet to the Southeast corner of GLO Lot 3; thence North 89 degrees 07 minutes 15 seconds West, 1464.61 feet to the Southwest corner of GLO Lot 3 and the POINT OF BEGINNING.

Containing 452.671 acres, more or less, and being subject to easements of record.



JMI & ASSOCIATES

p:\grosvenor\entrada\docs\legal\entrada del oro metes and bounds.doc  
3/20/03

## **M E M O R A N D U M**

**DATE:** August 2, 2005

**TO:** Linda Jaress  
Executive Consultant III

Jamie Moe  
Public Utilities Analyst

**FROM:** Dorothy Hains *DH*  
Utilities Engineer

**RE:** New CC&N Application for Entrada Del Oro Sewer Co.  
Docket No. SW-04316A-05-0371

---

### **Introduction**

Entrada Del Oro Sewer Company ("Entrada" or "Company") has submitted a new sewer Certificate of Convenience and Necessity (CC&N) application. Entrada's requested 452-acre service area is located near the City of Apache Junction in Pinal County. Entrada estimated there would be 1,132 residential units and one elementary school needing service in the requested area within the next five years.

### **System**

The Company proposes to install a 0.3 million gallons per day ("MGD") Marwood package wastewater treatment plant. The wastewater collected in the requested service area will be treated by nitrification, denitrification, filtration, and ultraviolet ("UV") disinfection. The treated effluent will be disposed in a dry wash. The United States Environmental Protection Agency ("EPA") issued a National Pollutant Discharge Elimination System ("NPDES") permit in May 2002 (Permit No. AZ0024899). The treatment plant was sized based on an estimated flow rate of 250 gallons per day per connection. Based on this estimate total flow in the requested area would approximate 0.28 MGD. The Company also states that the plant construction began this spring and is expected to be completed within one year. Staff concludes that the Company will have adequate treatment capacity to service expected growth in the requested area.

### **Arizona Department of Environmental Quality (ADEQ) Compliance**

ADEQ has approved the proposed on-site wastewater treatment and disposal system by issuing an Aquifer Protection Permit on May 31, 2005 (Permit No. - 105488). Staff recommends that the Company provide documentation to Staff

which demonstrates that the system is in service. This documentation should be filed with Docket Control in this Docket no later than December 31, 2007.

### Cost Analysis

Staff's recommended adjustments to the Company's cost estimates are listed in the right-hand column of the table below:

| NARUC Account | Description  | Company's cost estimate (\$) | Estimated and Detailed expenditures to date (\$)   |
|---------------|--|------------------------------|--|
| 351           | Organization   | 60,000                       | 60,000   |
| 352           | Franchise  | 0                            | 0  |
| 353           | Land & Land Rights:<br>Parcel of land 420'x400'  | 400,000                      | 400,000  |
| 354           | Structure & Improvements:<br>Air Quality Permit<br>Pinal Co. Industrial Use Permit<br>Construction Related Services<br>labor<br>938' 9' tall perimeter theme<br>wall fence<br>24' wide roll gate on track<br><br>16,884 sq feet Paint w f-stop<br><br>Site grading<br>Parking/driveway paving<br>34' 18" storm drain | 1,578,264                    | 5,954<br>1,097<br>138,149<br>5,522<br>44,846<br>(@47.81/ft)<br>5,850<br>(@\$5,850/unit)<br>3,208<br>(@\$0.19/sf)<br>17,450<br>33,450<br>1,020(@\$30/ft)                                      |
| 355           | Power Generation Equipment:<br>Emergency generator (300 KW)  | 66,000                       | 55,870   |
| 361           | Collection Sewer – Gravity fed<br>1,671 of 12" PVC,<br><br>129' of 12" DIP,<br><br>927' of 10" PVC,<br><br>13,418' of 8" PVC<br><br>1,446' of 8" DIP<br><br>13 manholes (5'-Diameter)<br><br>51 manholes (4'-Diameter)   | 1,925,000                    | 39,519 (@<br>\$23.65/ft)<br>6,902 (@<br>\$53.60/ft)<br>19,235 (@<br>\$20.75/ft)<br>241,524<br>(@\$18/ft)<br>60,732 (@\$42/ft)<br>28,600<br>(@\$2,200/MH)<br>66,300<br>(@\$1,300/MH)<br>7,000 |

|     |  |           |   |
|-----|--|-----------|---|
|     | 7 drop manholes  |           | (@\$1,000/MH)<br>1,500  |
|     | 6 Sewer plug   |           | (@\$250/unit)<br>12,320(@35/ft)   |
|     | 352' of concrete encasement  |           |   |
| 363 | Service laterals:<br>372 residential lots  | 0         | 122,760<br>(@330/lot)   |
| 365 | Flow Measuring Device  | 4,800     | 4,800   |
| 370 | Receiving Wells<br>Influent pump station<br>Effluent pump station  | 0         | 24,196<br>35,255  |
| 371 | Pumping Equipment<br>Two Continental Blowers (60-HP)<br>One Canyon Compressor Blower (for digester)<br>Two Anoxic mixers<br><br>One Flowtronex pump (model MCT 700-2CS-45)<br>One JCH influent pump (ITT Flygt Model CP3127-412, 7½-HP)  | 103,200   | 37,465<br>(@\$18,733/unit)<br><br>20,667<br>15,000<br>(@\$7,500/unit)<br><br>14,500<br>15,568           |
| 375 | Reuse Transmission and Distribution System<br>6,210' of 8" PVC<br><br>Seven 8" valve, box and cover<br><br>3 Air Release Valves<br><br>One 8" dip section  | 0         | 111,780<br>(@\$18/ft)<br>6,125<br>(@\$875/unit)<br>7,500<br>(@\$2,500/unit)<br>1,800<br>(@\$1,800/unit) |
| 380 | Treatment & disposal Equipment:<br>300,000 GPD Marwood treatment plant (Phase I)<br><br>Splitter box<br><br>Influent piping<br><br>Piping aeration to clarifier<br><br>Pumps, piping, controls<br><br>Fiberglass covers<br>Engineering Design Fee<br>Contingency Plan<br>Expansion 300,000 GPD | 1,809,158 | 639,973<br><br>17,000<br>5,600<br>2,000<br>18,900<br><br>145,000<br>255,000<br>96,120                   |

|     |  |                  |                  |
|-----|--|------------------|------------------|
|     | Marwood treatment plant<br>(Phase II)      |                  | 24,000           |
|     | Paint                                      |                  | 16,770           |
|     | Filter                                     |                  | 107,500          |
|     | UV disinfection device                     |                  | 84,720           |
|     | Odor control                               |                  | 4,768            |
|     | Bar screen                                 |                  | 62,325           |
|     | Concrete slab                              |                  | 228,277          |
|     | Excavation                                 |                  | 114,777          |
|     | Electrical work                            |                  | 155,500          |
| 382 | Outfall Sewer Line                         | 74,978           | 74,978           |
| 389 | Other Plant & Miscellaneous<br>Equipment   | 12,000           | 12,000           |
| 393 | Tools, Shop & Garage<br>Equipment          | 9,600            | 9,600            |
| 394 | Lab equipment                              | 12,000           | 12,000           |
| 395 | Power Operated Equipment                   | 6,000            | 6,000            |
| 397 | Other Plant and Miscellaneous<br>Equipment | 234,000          | 0                |
|     | <b>Total</b>                               | <b>6,295,000</b> | <b>3,766,281</b> |

Staff concludes that the detailed expenditures to date are reasonable and appropriate for this project. Staff would note that the Company's total cost estimate for this project seems excessive. The Company estimated total of \$6,295,000 for a 0.3 MGD wastewater treatment system equates to a unit cost of approximately \$21 per gallon of treated effluent. This unit cost is significantly higher than what Staff has experienced for similar plants which has been in the range of \$5 - 7 per gallon of treated effluent.

Approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for rate making or rate base purposes.

### **Depreciation Rates**

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table 2, and it is recommended that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners (NARUC) category, as delineated in this table.



**Table 1**  
**DEPRECIATION RATES FOR WASTEWATER SYSTEM**

| Acct.<br>No. | Depreciable Plant                             | Average<br>Service<br>Life<br>(Years) | Annual<br>Accrual<br>Rate (%) |
|--------------|---|---------------------------------------|-------------------------------|
| 354          | Structures & Improvements                     | 30                                    | 3.33                          |
| 355          | Power Generation Equipment                    | 30                                    | 3.33                          |
| 360          | Collection Sewers – Force                     | 50                                    | 2.00                          |
| 361          | Collection Sewers – Gravity                   | 50                                    | 2.00                          |
| 362          | Special Collecting Structures                 | 50                                    | 2.00                          |
| 363          | Services to Customers                         | 50                                    | 2.00                          |
| 364          | Flow Measuring Devices                        | 10                                    | 10.00                         |
| 365          | Flow measuring Installations                  | 20                                    | 5.00                          |
| 366          | Reuse Services                                | 50                                    | 2.00                          |
| 367          | Reuse Meters and Meter<br>Installations       | 30                                    | 3.33                          |
| 370          | Receiving Wells                               | 30                                    | 3.33                          |
| 371          | Pumping Equipment                             | 10                                    | 10.00                         |
| 374          | Reuse Distribution Reservoirs                 | 40                                    | 2.50                          |
| 375          | Reuse Transmission and<br>Distribution System | 50                                    | 2.00                          |
| 380          | Treatment and Disposal Equipment              | 20                                    | 5.00                          |
| 381          | Plant Sewers                                  | 20                                    | 5.00                          |
| 382          | Outfall Sewer Lines                           | 25                                    | 4.00                          |
| 389          | Other Plant & Misc Equipment                  | 15                                    | 6.67                          |
| 390          | Office Furniture & Equipment                  | 15                                    | 6.67                          |
| 390.1        | Computers & Software                          | 5                                     | 20.00                         |
| 391          | Transportation Equipment                      | 5                                     | 20.00                         |
| 392          | Store Equipment                               | 25                                    | 4.00                          |
| 393          | Tools, Shop & Garage Equipment                | 20                                    | 5.00                          |
| 394          | Laboratory Equipment                          | 10                                    | 10.00                         |
| 395          | Power Operated Equipment                      | 20                                    | 5.00                          |
| 396          | Communication Equipment                       | 10                                    | 10.00                         |
| 397          | Miscellaneous Equipment                       | 10                                    | 10.00                         |
| 398          | Other Tangible Plant                          | ----                                  | ----                          |

## **Summary**

### **I. Conclusions**


1. The EPA issued a NPDES permit in May 2002 (Permit No. AZ0024899).
2. ADEQ has approved the proposed on-site wastewater treatment and disposal system by issuing an Aquifer Protection Permit on May 31, 2005 (Permit No. P-105488).
3. Staff concludes that the Company will have adequate treatment capacity to service expected growth in the requested area.
4. Staff concludes that the detailed expenditures to date are reasonable and appropriate for this project.

### **II. Recommendations**

1. Staff recommends that the Company use the depreciation rates delineated in Table 1 for its wastewater system.
2. Staff recommends that the Company provide documentation to Staff which demonstrates that the system is in service. This documentation should be filed with Docket Control in this Docket no later than December 31, 2007.

## MEMORANDUM

TO: Linda Jaress  
Executive Consultant  
Utilities Division

FROM: Jamie R. Moe   
Public Utilities Analyst IV  
Financial and Regulatory Analysis Section  
Utilities Division

DATE: August 11, 2005

RE: ENTRADA DEL ORO SEWER COMPANY  
DOCKET NO. SW-04316A-05-0371

---

### Introduction

On May 24, 2005, Entrada Del Oro Sewer Company ("Company") filed an Application with the Arizona Corporation Commission ("Commission") for a Certificate of Convenience and Necessity ("CC&N") to provide wastewater service to the Entrada Del Oro development located approximately 4 miles east of Gold Canyon in Pinal County, Arizona. The area currently has no wastewater service.

Historical operating and financial information does not exist to provide a basis for establishing rates for this wastewater system. Therefore, consistent with Commission rules, the Company's filing included the required five-year projections for plant values, operating revenues, operating expenses, and customers.

Staff's recommended rates are based on the Company's five-year projections, as adjusted by Staff. Staff recommends revenues of \$743,826, a decrease of \$11,046 from the Company's proposed revenues of \$754,872 in year five. Staff's recommended revenues would generate operating income of \$20,458 resulting in a 0.61 percent rate of return on a Staff adjusted original cost rate base of \$3,343,970 as shown on Schedule JRM-1.

### Projected Fair Value Rate Base ("FVRB")

The Company provided information that was sufficient to calculate the projected original cost rate base ("OCRB") as shown on Schedule JRM-2. Staff evaluated the projected OCRB as

the fair value rate base. Staff recommends a projected fair value rate base in year five of \$3,343,970.

#### Projected Plant in Service

In the first year, the Company plans to invest \$400,000 in land and \$5,895,000 in backbone plant and on-site facilities for a total investment of \$6,295,000. The Company plans an additional investment of \$250,000 in year two for a projected Plant in Service total of \$6,545,000 by the end of year five.

#### Accumulated Depreciation

The Company's projected Accumulated Depreciation balances are shown by year on Schedule JRM-3. In the fifth year, Staff anticipates a \$1,049,280 Accumulated Depreciation balance based on Staff's recommended depreciation rates, a decrease of \$85,325 from the Company's anticipated balance of \$1,134,605 for Accumulated Depreciation.

#### Projected Advances In Aid of Construction ("AIAC") and Contributions In Aid of Construction ("CIAC")

The Company projects that the net cumulative balance for AIAC will be \$0. In the fifth year, Staff estimates a net balance of \$2,151,750 for CIAC, a decrease of \$19,250 from the Company's projection of \$2,132,500 for CIAC.

#### Projected Operating Income

The Company provided projected revenues and expenses for five years. Staff's analysis, while taking into account all of the years presented, is concentrated on the fifth year of operation when breakeven or profitability is usually expected.

#### Projected Operating Revenues

Staff reviewed the Company's calculation of revenue based on the five-year projection and found it to be reasonable; however, Staff made an adjustment to reflect its recommended rates. Schedule JRM-1 reflects Staff's estimate of operating revenues in year five of \$743,826, a decrease of \$11,046 from the Company's projection of \$754,872.

#### Projected Operating Expenses

Staff reviewed the operating expenses and found them to be reasonable. Staff adjusted the Company's proposed depreciation rates and replaced them with those recommended by Staff. Staff adjusted Depreciation Expense in year five to \$197,451, an increase of \$5,280 from the Company's projected Depreciation Expense of \$192,171. Based upon the Company's Projected Customer Growth and Sewage Flows schedule, Staff also adjusted Sludge Removal Expense in

year five to \$230,579, an increase of \$186,914 from the Company's projection of \$43,665. Schedule JRM-1 reflects operating expenses of \$723,369 in year five.

### **Rate Design**

Schedule JRM-4 presents a complete list of the Company's proposed, and Staff's recommended rates and charges. The Company expects that in the fifth year of operations it will serve an average of 810 residential customers and one school. Staff recommends adoption of the Company's proposed monthly fee for residential service of \$70.00. Staff recommends \$5.60 per student per month, a decrease of \$1.40 from the Company's proposed rate of \$7.00 per student per month for school service. This adjustment was made to reflect Staff's estimate that a student will use an average of 20 gallons per day as opposed to the Company's estimate of 25 gallons per day.

### **Service Charges**

Staff recommends adoption of the Company's proposed service charges. However, Staff recommends an NSF Check Charge of \$25.00, which reflects the industry standard. This is a decrease of \$10.00 from the Company's proposed NSF Check Charge of \$35.00.

### **Staff Recommendations**

Staff recommends approval of the Staff recommended rates and charges as shown in Schedule JRM-4.

Staff further recommends that the Commission make an estimated fair value rate base finding of \$3,343,970 in the fifth year.

Staff further recommends that the Company utilize the depreciation rates stated in the attached Engineering Memorandum.

Staff further recommends that the Company be ordered to file a permanent rate application in its sixth year of operations, using the fifth year as the test year.

ENTRADA DEL ORO SEWER COMPANY  
DOCKET NO.: SW-04316A-05-0371  
PROJECTED INCOME STATEMENTS  
ACC FORM CS-2

Schedule JRM-1

|  | Year 1       | Year 2       | Year 3       | Year 4       | Year 5       |
|--|--------------|--------------|--------------|--------------|--------------|
| Average No. of:                          |              |              |              |              |              |
| Residential Customers                    | 90           | 270          | 450          | 630          | 810          |
| Commercial (School) - Students           | -            | -            | 360          | 504          | 648          |
| Revenues:                                |              |              |              |              |              |
| Flat Rate Revenues - Residential         | \$ 75,600    | \$ 226,800   | \$ 378,000   | \$ 529,200   | \$ 680,400   |
| Flat Rate Revenues - School              | -            | -            | 24,192       | 33,869       | 43,546       |
| Effluent Credits                         | 1,512        | 4,537        | 8,045        | 11,263       | 14,481       |
| Other Revenues - Est. of Service         | 5,400        | 5,400        | 5,430        | 5,400        | 5,400        |
| Total Revenues                           | \$ 82,512    | \$ 236,737   | \$ 415,667   | \$ 579,732   | \$ 743,826   |
| Operating Expenses:                      |              |              |              |              |              |
| Salaries & Wages                         | \$ 55,794    | \$ 55,794    | \$ 55,794    | \$ 55,794    | \$ 55,794    |
| Sludge Removal Expense                   | 24,079       | 72,236       | 128,099      | 179,339      | 230,579      |
| Purchased Power                          | 48,259       | 72,713       | 80,963       | 104,249      | 125,292      |
| Sewage Treatment & Testing Exp.          | 19,991       | 19,991       | 19,991       | 19,991       | 19,991       |
| Repairs & Maintenance                    | 11,160       | 15,840       | 15,840       | 16,128       | 16,128       |
| Office Supplies & Expense                | 4,158        | 4,158        | 4,158        | 4,158        | 4,158        |
| Outside Services                         | 9,214        | 5,914        | 7,018        | 8,808        | 8,808        |
| Rents                                    | -            | -            | -            | -            | -            |
| Transportation Expenses                  | 8,869        | 8,869        | 8,869        | 8,869        | 8,869        |
| Liability Insurance                      | 4,446        | 5,564        | 6,416        | 7,559        | 8,592        |
| Health & Life Insurance                  | 6,983        | 6,983        | 6,983        | 6,983        | 6,983        |
| Depreciation Expense                     | 92,476       | 191,201      | 197,451      | 197,451      | 197,451      |
| Property Taxes                           | 3,302        | 9,470        | 16,873       | 23,533       | 30,195       |
| Miscellaneous Expenses                   | 10,484       | 10,484       | 10,484       | 10,484       | 10,484       |
| Income Taxes                             | 45           | 45           | 45           | 45           | 45           |
| Total Operating Expenses                 | \$ 299,260   | \$ 479,262   | \$ 558,984   | \$ 643,391   | \$ 723,369   |
| Operating Income (Loss)                  | \$ (216,748) | \$ (242,526) | \$ (143,317) | \$ (63,659)  | \$ 20,458    |
| Original Cost Rate Base                  | \$ 3,877,524 | \$ 3,936,323 | \$ 3,738,872 | \$ 3,541,421 | \$ 3,343,970 |
| Return on Rate Base                      | -5.59%       | -6.16%       | -3.83%       | -1.80%       | 0.61%        |
| Revenue Assumptions                      |              |              |              |              |              |
| REU - Residential Flows/Day              | 250          |              |              |              |              |
| Residential Flat Rate - Per Month        | \$ 70.00     |              |              |              |              |
| School Flat Rate - Per Month Per Student | \$ 5.60      |              |              |              |              |
| Establishment of Service Charge          | \$ 30.00     |              |              |              |              |
| Effluent Recharge Credit - Per AF        | \$ 120.00    |              |              |              |              |

ENTRADA DEL ORO SEWER COMPANY  
DOCKET NO.: SW-04316A-05-0371  
PROJECTED ORIGINAL COST RATE BASE

Schedule JRM-2

|  | Year 1              | Year 2              | Year 3              | Year 4              | Year 5              |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Plant In Service   | \$ -                | \$ 6,295,000        | \$ 6,545,000        | \$ 6,545,000        | \$ 6,545,000        |
| Plus: Plant Additions  | 6,295,000           | 250,000             | -                   | -                   | -                   |
| Total Plant In Service                                       | 6,295,000           | 6,545,000           | 6,545,000           | 6,545,000           | 6,545,000           |
| Less: Accumulated Depreciation                               | 111,726             | 341,427             | 577,378             | 813,329             | 1,049,280           |
| Net Plant In Service   | 6,183,274           | 6,203,573           | 5,967,622           | 5,731,671           | 5,495,720           |
| Less:  |                     |                     |                     |                     |                     |
| Contributions In Aid of Construction ("CIAC") - <sup>1</sup> | 2,325,000           | 2,325,000           | 2,325,000           | 2,325,000           | 2,325,000           |
| Amortization of CIAC   | 19,250              | 57,750              | 96,250              | 134,750             | 173,250             |
| Net CIAC   | 2,305,750           | 2,267,250           | 2,228,750           | 2,190,250           | 2,151,750           |
| Original Cost Rate Base                                      | <u>\$ 3,877,524</u> | <u>\$ 3,936,323</u> | <u>\$ 3,738,872</u> | <u>\$ 3,541,421</u> | <u>\$ 3,343,970</u> |

<sup>1</sup> - Land and Collection System

ENTRADA DEL ORO SEWER COMPANY  
DOCKET NO.: SW-04316A-05-0371  
PROJECTED CUSTOMER GROWTH AND SEWAGE FLOWS

Schedule JRM-3

|   |           |            |            |            |            |
|---|-----------|------------|------------|------------|------------|
| Residential:                              |           |            |            |            |            |
| Beginning Customers                       | -         | 180        | 360        | 540        | 720        |
| Customer Additions                        | 180       | 180        | 180        | 180        | 180        |
| Ending Balance                            | 180       | 360        | 540        | 720        | 900        |
| Average Residential Customers             | 90        | 270        | 450        | 630        | 810        |
| Commercial:                               |           |            |            |            |            |
| School                                    | -         | -          | 1          | 1          | 1          |
| Average Flows - GPD Per Customer:         |           |            |            |            |            |
| Residential                               | 250       | 250        | 250        | 250        | 250        |
| Schools - Students                        | -         | -          | 360        | 504        | 648        |
| Daily Flows - Per Student                 | -         | -          | 20         | 20         | 20         |
| School REU's                              | -         | -          | 36         | 50         | 65         |
| Average Total Daily Flows - Gallons:      |           |            |            |            |            |
| Residential                               | 22,500    | 67,500     | 112,500    | 157,500    | 202,500    |
| School                                    | -         | -          | 7,200      | 10,080     | 12,960     |
| Total Average Daily Flows                 | 22,500    | 67,500     | 119,700    | 167,580    | 215,460    |
| Total Annual Flows - Treatment Influenced | 8,212,500 | 24,637,500 | 43,690,500 | 61,166,700 | 78,642,900 |
| Liquid Sludge:                            |           |            |            |            |            |
| Gallons of Sludge @ 13,250/Million        | 108,816   | 326,447    | 578,899    | 810,459    | 1,042,018  |
| Sludge Removal @ \$0.18 Per Gallon        | \$ 19,587 | \$ 58,760  | \$ 104,202 | \$ 145,883 | \$ 187,563 |
| Dewatered Sludge:                         |           |            |            |            |            |
| Solids @ 15%                              | 68        | 204        | 362        | 506        | 651        |
| Annual Sludge Removal Cost                | \$ 4,492  | \$ 13,476  | \$ 23,897  | \$ 33,456  | \$ 43,015  |
| Total Annual Flows - Effluent Recharge    | 4,106,250 | 12,318,750 | 21,845,250 | 30,583,350 | 39,321,450 |
| Acre Feet of Recharge                     | 13        | 38         | 67         | 94         | 121        |
| Type 2 Value/AF                           | \$ 120    | \$ 120     | \$ 120     | \$ 120     | \$ 120     |
| Total Credit                              | \$ 1,512  | \$ 4,537   | \$ 8,045   | \$ 11,263  | \$ 14,481  |



ENTRADA DEL ORO SEWER COMPANY  
DOCKET NO.: SW-04316A-05-0371  
SCHEDULE OF RECOMMENDED RATES AND CHARGES

Schedule JRM-4

|  | Company<br>Proposed | Staff<br>Recommended |
|--|---------------------|----------------------|
| <b>Monthly Wastewater Service:</b>             |                     |                      |
| Residential Service                            | \$ 70.00            | \$ 70.00             |
| School Service - Per Student                   | 7.00                | 5.60                 |
| <b>Other Rates and Charges:</b>                |                     |                      |
| Establishment of Service - Regular Hours       | \$ 30.00            | \$ 30.00             |
| Establishment of Service - After Hours         | 60.00               | 60.00                |
| Re-establishment of Service (Within 12 Months) | (1)                 | (1)                  |
| Reconnection - Delinquent                      | 60.00               | 60.00                |
| Customer Deposit                               | (2)                 | (2)                  |
| Deposit Interest                               | 3.50%               | (2)                  |
| NSF Check Charge                               | 35.00               | 25.00                |
| Late Payment Penalty - Per Month               | 1.50%               | 1.50%                |
| Deferred Payment Interest - Per Month          | 1.50%               | 1.50%                |
| Main Extensions/Additional Facilities          | Cost                | Cost                 |
| Revenue Taxes & Assessments                    | (3)                 | (3)                  |

**Notes:**

- (1) Per Rule R14-2-603D - Months off system times the minimum charge.
- (2) Per Rule R14-2-603B
- (3) Per Rule R14-2-608D

| Description                            | Original |       | Accum.       |        | Additions    |            | Retirements |        | Original     |            | Depr.  |        | Accum.     |        | Additions    |            | Retirements |        | Original  |         | Depr.  |        | Accum. |  |
|--|----------|-------|--------------|--------|--------------|------------|-------------|--------|--------------|------------|--------|--------|------------|--------|--------------|------------|-------------|--------|-----------|---------|--------|--------|--------|--|
|  | Cost     | Depr. | Year 1       | Year 1 | Cost         | Expense    | Year 1      | Year 1 | Cost         | Expense    | Year 1 | Year 1 | Year 2     | Year 2 | Cost         | Expense    | Year 2      | Year 2 | Cost      | Expense | Year 2 | Year 2 |        |  |
| 351 Organization                       | \$ -     | \$ -  | \$ 60,000    | -      | \$ 60,000    | -          | -           | -      | \$ 60,000    | -          | -      | -      | \$ -       | -      | \$ 60,000    | -          | -           | -      | \$ 60,000 | -       | -      | -      | -      |  |
| 352 Franchises                         | -        | -     | -            | -      | -            | -          | -           | -      | -            | -          | -      | -      | -          | -      | -            | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 353 Land and Land Rights (1)           | -        | -     | 400,000      | -      | -            | -          | -           | -      | 400,000      | -          | -      | -      | -          | -      | 400,000      | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 354 Structures & Improvements - Treat. | -        | -     | 1,578,264    | -      | -            | -          | -           | -      | 1,578,264    | -          | -      | -      | -          | -      | 1,578,264    | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 355 Power Generation Equipment         | -        | -     | 66,000       | -      | -            | -          | -           | -      | 66,000       | -          | -      | -      | -          | -      | 66,000       | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 361 Collection Sewers - Gravity (1)    | -        | -     | 1,925,000    | -      | -            | -          | -           | -      | 1,925,000    | -          | -      | -      | -          | -      | 1,925,000    | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 363 Service Laterals                   | -        | -     | -            | -      | -            | -          | -           | -      | -            | -          | -      | -      | -          | -      | -            | -          | -           | -      | -         | -       | -      | -      |        |  |
| 365 Flow Measuring Devices & Install.  | -        | -     | 4,800        | -      | -            | -          | -           | -      | 4,800        | -          | -      | -      | -          | -      | 4,800        | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 370 Receiving Wells                    | -        | -     | -            | -      | -            | -          | -           | -      | -            | -          | -      | -      | -          | -      | -            | -          | -           | -      | -         | -       | -      | -      |        |  |
| 371 Pumping Equipment                  | -        | -     | 103,200      | -      | -            | -          | -           | -      | 103,200      | -          | -      | -      | -          | -      | 103,200      | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 375 Reuse Trans. & Dist. System        | -        | -     | -            | -      | -            | -          | -           | -      | -            | -          | -      | -      | -          | -      | -            | -          | -           | -      | -         | -       | -      | -      |        |  |
| 380 Treatment & Disposal Equipment     | -        | -     | -            | -      | -            | -          | -           | -      | -            | -          | -      | -      | -          | -      | -            | -          | -           | -      | -         | -       | -      | -      |        |  |
| 382 Outfall Sewer Lines                | -        | -     | 1,809,158    | -      | -            | -          | -           | -      | 1,809,158    | -          | -      | -      | -          | -      | 1,809,158    | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 389 Other Plant & Misc. Equipment      | -        | -     | 74,978       | -      | -            | -          | -           | -      | 74,978       | -          | -      | -      | -          | -      | 74,978       | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 393 Tools, Shop, & Garage Equipment    | -        | -     | 12,000       | -      | -            | -          | -           | -      | 12,000       | -          | -      | -      | -          | -      | 12,000       | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 394 Lab Equipment                      | -        | -     | 12,000       | -      | -            | -          | -           | -      | 12,000       | -          | -      | -      | -          | -      | 12,000       | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 395 Power Operated Equipment           | -        | -     | 6,000        | -      | -            | -          | -           | -      | 6,000        | -          | -      | -      | -          | -      | 6,000        | -          | -           | -      | -         | -       | -      | -      | -      |  |
| 397 Other Plant & Misc. Equipment      | -        | -     | 234,000      | -      | -            | -          | -           | -      | 234,000      | -          | -      | -      | -          | -      | 234,000      | -          | -           | -      | -         | -       | -      | -      | -      |  |
|  | \$ -     | \$ -  | \$ 6,285,000 | \$ -   | \$ 6,285,000 | \$ 111,726 | -           | -      | \$ 6,285,000 | \$ 111,726 | -      | -      | \$ 250,000 | \$ -   | \$ 6,545,000 | \$ 229,701 | \$ 341,427  | -      | -         | -       | -      | -      | -      |  |
| (1) CAC - Land & Collection System     |          |       | 2,325,000    | -      | 2,325,000    | 19,250     | -           | -      | 2,325,000    | 19,250     | -      | -      | -          | -      | 2,325,000    | 38,500     | 57,750      | -      | -         | -       | -      | -      | -      |  |
| O&M & Depr. Expense                    |          |       | 3,970,000    | -      | 3,970,000    | 92,476     | -           | -      | 3,970,000    | 92,476     | -      | -      | -          | -      | 4,220,000    | 191,201    | 283,677     | -      | -         | -       | -      | -      | -      |  |

| 2023                |                       |                            |                           | 2024                     |                     |                       |                            | 2025                      |                          |                     |                       |                            |                           |                          |
|---------------------|-----------------------|----------------------------|---------------------------|--------------------------|---------------------|-----------------------|----------------------------|---------------------------|--------------------------|---------------------|-----------------------|----------------------------|---------------------------|--------------------------|
| Additions<br>Year 3 | Retirements<br>Year 3 | Original<br>Cost<br>Year 3 | Dep.<br>Expense<br>Year 3 | Accum.<br>Dep.<br>Year 3 | Additions<br>Year 4 | Retirements<br>Year 4 | Original<br>Cost<br>Year 4 | Dep.<br>Expense<br>Year 4 | Accum.<br>Dep.<br>Year 4 | Additions<br>Year 5 | Retirements<br>Year 5 | Original<br>Cost<br>Year 5 | Dep.<br>Expense<br>Year 5 | Accum.<br>Dep.<br>Year 5 |
| -                   | -                     | \$ 60,000                  | \$ -                      | \$ -                     | -                   | -                     | \$ 60,000                  | \$ -                      | \$ -                     | -                   | -                     | \$ 60,000                  | \$ -                      | \$ -                     |
| -                   | -                     | 400,000                    | -                         | -                        | -                   | -                     | 400,000                    | -                         | -                        | -                   | -                     | 400,000                    | -                         | -                        |
| -                   | -                     | 1,578,264                  | 52,556                    | 131,390                  | -                   | -                     | 1,578,264                  | 52,556                    | 183,946                  | -                   | -                     | 1,578,264                  | 52,556                    | 236,502                  |
| -                   | -                     | 66,000                     | 2,198                     | 5,495                    | -                   | -                     | 66,000                     | 2,198                     | 7,693                    | -                   | -                     | 66,000                     | 2,198                     | 9,891                    |
| -                   | -                     | 1,925,000                  | 38,500                    | 96,250                   | -                   | -                     | 1,925,000                  | 38,500                    | 134,750                  | -                   | -                     | 1,925,000                  | 38,500                    | 173,250                  |
| -                   | -                     | 4,800                      | 240                       | 600                      | -                   | -                     | 4,800                      | 240                       | 840                      | -                   | -                     | 4,800                      | 240                       | 1,080                    |
| -                   | -                     | 103,200                    | 10,320                    | 25,800                   | -                   | -                     | 103,200                    | 10,320                    | 36,120                   | -                   | -                     | 103,200                    | 10,320                    | 46,440                   |
| -                   | -                     | 2,059,158                  | 102,958                   | 244,895                  | -                   | -                     | 2,059,158                  | 102,958                   | 347,853                  | -                   | -                     | 2,059,158                  | 102,958                   | 450,811                  |
| -                   | -                     | 74,978                     | 2,999                     | 7,498                    | -                   | -                     | 74,978                     | 2,999                     | 10,497                   | -                   | -                     | 74,978                     | 2,999                     | 13,496                   |
| -                   | -                     | 12,000                     | 800                       | 2,000                    | -                   | -                     | 12,000                     | 800                       | 2,800                    | -                   | -                     | 12,000                     | 800                       | 3,600                    |
| -                   | -                     | 9,600                      | 480                       | 1,200                    | -                   | -                     | 9,600                      | 480                       | 1,680                    | -                   | -                     | 9,600                      | 480                       | 2,160                    |
| -                   | -                     | 12,000                     | 1,200                     | 3,000                    | -                   | -                     | 12,000                     | 1,200                     | 4,200                    | -                   | -                     | 12,000                     | 1,200                     | 5,400                    |
| -                   | -                     | 6,000                      | 300                       | 750                      | -                   | -                     | 6,000                      | 300                       | 1,050                    | -                   | -                     | 6,000                      | 300                       | 1,350                    |
| -                   | -                     | 234,000                    | 23,400                    | 58,500                   | -                   | -                     | 234,000                    | 23,400                    | 81,900                   | -                   | -                     | 234,000                    | 23,400                    | 105,300                  |
| \$ -                | \$ -                  | \$ 6,545,000               | \$ 235,951                | \$ 577,378               | \$ -                | \$ -                  | \$ 6,545,000               | \$ 235,951                | \$ 813,329               | \$ -                | \$ -                  | \$ 6,545,000               | \$ 235,951                | \$ 1,049,280             |
| -                   | -                     | 2,325,000                  | 38,500                    | 96,250                   | -                   | -                     | 2,325,000                  | 38,500                    | 134,750                  | -                   | -                     | 2,325,000                  | 38,500                    | 173,250                  |
| 4,220,000           | 197,451               | 481,128                    | -                         | -                        | 4,220,000           | 197,451               | 678,579                    | -                         | -                        | 4,220,000           | 197,451               | 876,030                    | -                         | -                        |